108th Congress - Small Business Record

December 2003

Congress of the United States
House of Representatives

Report by the House Small Business Committee
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Introduction
In early 2003, the U.S. economy faced challenges on several fronts. Geopolitical uncertainty contributed to subdued levels of economic growth, driven by lower levels of consumer spending and business investment. Even though the economy has recently shown signs of recovery, its sustainability is less than certain. Contributing to this pessimism are the staggering budget deficits and the stubbornness of the economy to generate enough new jobs for those who are seeking employment.

According to the Congressional Budget Office (CBO) projections, the budget deficit may approach $500 billion by the end of 2004, raising the probability of higher borrowing costs for homeowners and businesses alike. Job growth remains subdued and continually fails to meet the expectations of economists. Together the mounting budget deficits and the high levels of prolonged unemployment will weigh on the economy, acting as a countervailing force to the many economic factors that have recently shown signs of resurgence.

Perhaps the single most important sector for ensuring sustained economic growth and job creation is small business. The 23 million small firms in the U.S. are the engine of the American economy, generating three-fourths of all new jobs, representing 99% of all employers, and creating more than half of our GDP. In the past, during times of economic downturns and recessions, it has been our entrepreneurs who launch start-ups, spark business investment, and provide job opportunities for the ranks of the unemployed or underemployed.

Even though small businesses are a formidable economic force in this country, there are an array of barriers that inhibit their potential to ensure a period of long-term economic growth. For example, the majority of uninsured Americans is either employed, or have a family member who is employed, by a small business. Small companies are also shut out of the $235 billion federal marketplace, government regulations are a bigger drain on resources for small companies in comparison to their corporate counterparts, and targeted small business tax relief remains elusive.

Policymakers regularly observe the enormous role of small businesses in the economy, especially in times of such economic uncertainty, and have acknowledged the hurdles they face. Examples of this recognition can be found in the release of the administration's small business agenda, which included action items aimed at helping entrepreneurs – from providing new tax incentives so small businesses can make job-creating investments to giving small business owners the ability to offer health care to the uninsured by providing them with health care options. A year later, the administration released another agenda with a slant on manufacturing, consisting of four specific areas: pro-growth tax policies, free and fair trade policies, education reform, and health care reform.

These efforts appeared to set the policy stage for significant progress on issues important to small businesses. However, during the first session of the 108^{th} Congress, the priorities of the administration and the Republican leadership shifted away from small businesses to other, less growth-oriented areas of the economy. Although members of Congress have put forth several legislative initiatives to help small firms, few of these initiatives have moved forward. At its start, the 108^{th} Congress promised to be the most productive for small business, but this year the legislative agenda of our nation's entrepreneurs was marked by inaction.

In an effort to track the accomplishments of Congress relating to entrepreneurs, this report provides a compendium of small business issues, legislation introduced to address such concerns, and the status of these legislative efforts. This report is based on surveys of associations from all sectors of the economy, representing small companies across the country. The report outlines solutions to small businesses most pressing issues, encompassing the areas of access to capital, energy, entrepreneurial programs, federal contracting, health care, pensions, regulations, taxes, technology, transportation and worker training.

Small businesses, through their ability to innovate and respond quickly to market conditions, are an important component of the U.S. economy's ability to grow and create new jobs. Failure in the upcoming year to recognize the needs of small companies and propose legislative solutions to help this sector will undermine the ability of our economy to make a sustained recovery.

Access to Capital

Small businesses typically lack access to affordable capital and competitive financial services. All businesses, both large and small, need capital to succeed. Whether it is start-up costs, expansion, purchasing or repairing equipment, or even employee costs, there are always new expenses for businesses.

Small companies need affordable financing in order to remain competitive. Traditionally, small firms with fewer assets to pledge as collateral, uncertain earnings, and high failure rates have had a more difficult time than larger businesses in securing capital. While the private marketplace provides many small business loan products, the Small Business Administration's (SBA) lending programs fill an important void to those that lack access to such funds. These loan programs, which comprise 40% of all long-term financing for small businesses, foster economic development in communities across the country.

The Small Business Reauthorization and Manufacturing Revitalization Act of 2003 (H.R. 2802) provides a multitude of solutions that would increase access to capital for small businesses. A bipartisan measure, H.R. 2802 is the most comprehensive effort to modernize the SBA's loan programs in the last twenty years, yet it remains stalled due to administration objections and Republican leadership maneuvering.

This bill would expand and streamline SBA's business financing programs, allowing lenders to do what they do best – get capital into the hands of small businesses so they can grow the economy and create jobs. It reduces the costs associated with SBA's flagship loan program, making capital more affordable to smaller companies. And in order to meet the needs of our nation's entrepreneurs, H.R. 2802 expands the reach of the SBA's loan programs, enabling borrowers to easily apply for loans and receive a decision on their loan applications more quickly.

Additionally, Republicans have prevented Congress from making important changes to another critical initiative – the New Markets Venture Capital (NMVC) Program. This program provides the framework for venture capital companies to make investments in areas that are not being served by traditional financing programs, and where other lenders are unwilling or unable to provide access to capital. Unfortunately, the Bush administration's failure to support this fledgling program has limited its success in serving an area that would reap its benefits. H.R. 2802 would also strengthen the NMVC program, making it an attractive vehicle for investment, by encouraging more NMVC companies to enter the program and bolstering the incentives for investment in existing NMVC firms. If passed, this legislation would increase the flow of capital to small businesses located in low-income communities, enabling them to grow and prosper while laying the foundation for future economic development.

The Republican leadership has also stalled legislation that would bolster the venture capital industry. In recent years, venture capital funding has declined from a high of over $28.5 billion in the first quarter of 2001 to just over $4 billion in the third quarter of 2003. This decline has greatly limited the ability of small companies to secure equity financing, forcing them to look to other funding sources. While the Small Business Investment Company (SBIC) Program was created to further encourage equity investment in small businesses, current law hinders its mission. Today, non-profit organizations, such as pension funds and university endowments, are deterred from investing in SBICs due to archaic investment laws. As a result, SBICs have received considerably less investment from these types of organizations, limiting the amount of capital they can provide to small businesses.

In order to address this problem and further encourage equity investment in small businesses, lawmakers introduced the ***Small Business Investment Company Capital Access Act of 2003 (H.R. 739)***. This legislation would modify investment laws to encourage such non-profit organizations to invest in SBICs. H.R. 739, which carries minimal taxpayer costs, would generate as much as $500 million per year in new investment for U.S. small businesses. Instead of passing this pro-small business legislation, Republicans chose to pass President Bush's dividend tax cut, which actually encourages investment in large corporations.

While access to capital is of paramount concern to small businesses, they also rely on the nation's banking system for financial services. Aside from loan products, financial services include both deposit products and merchant services. Basic deposit products, such as checking and savings accounts, provide small companies with the right tools to readily access and manage their funds. Merchant services, including credit cards, debit cards, and check processing services, enable the small business sector to meet the needs of its customers.

With regard to financial services, a proposal is currently pending to eliminate Depression-era laws that restrict banks from paying interest on funds held in checking accounts. Small businesses are more likely to use basic checking account services than larger companies, which can often leverage their broader business relationship for more preferential deposit services. ***The Business Checking Freedom Act of 2003 (H.R. 758)***, which has already passed the House, addresses this problem by repealing such antiquated laws. But H.R. 758 continues to languish as the Bush administration and Congressional leaders place emphasis on other legislative areas.

Although the financial services industry has witnessed great change in the last two decades, small businesses have seen few gains. In order for them to benefit, the SBA's loan and equity programs need to be modernized and streamlined, and obsolete banking laws must be repealed. Today, small companies continue to be challenged by higher capital costs, unfavorable tax regimes, and less competitive financial services products. Until this administration and the Republican leadership move on these important initiatives for small businesses, they will continue to struggle for success.

Energy

America's small firms now account for more than half of all energy consumption in North America. High energy consumption is the sign of a strong economy, yet steep energy prices continue to contribute to the ongoing recession in the small business sector. The growth and development of this sector depend on an affordable and reliable energy supply – and solutions to help them maintain business operations in the face of rising energy costs. However, the ***Energy Policy Act of 2003 (H.R. 6)***, which recently was approved by the House, fails to ensure that our country has ready access to secure supplies of clean, affordable energy sources so that small businesses can continue to thrive and contribute to our national economy.

The energy bill includes a provision in the electricity title granting a higher rate of return to electric utilities, which will likely result in increased rates for all small businesses throughout the country. While the amount of the rate increase is not currently known, the slightest rise in electricity bills can bankrupt small companies. In the same light, the bill's ethanol mandate will raise gas prices, costing an estimated $6.9 billion, and disproportionately impacting small businesses.

The electricity title of the bill also includes a repeal of the Public Utility Holding Company Act (PUHCA), which has long been sought by electric utilities and non-utility companies for expansion into these markets. PUHCA protects small businesses by preventing monopoly ownership of electricity production and ensuring that consumers do not end up paying for the bad investments of the utility industry. Repealing PUCHA without establishing adequate protections places small companies at greater risk to devastating price hikes.

The repercussions of the massive 2003 Northeast power outage were felt from Massachusetts to Michigan, with many small businesses struggling to restart their operations and recover from revenue losses. In leaving many of our nation's small companies without electricity or clean water for several days, the blackout severely impacted their near-term profitability and jeopardized their long-term financial future, with most remaining vulnerable to future power failures. However, the Energy Policy Act fails to produce a tough, seamless federal regulatory system that would prevent electricity companies from overloading transmission grids, which is the most pressing need after the blackout. The energy bill does not effectively prevent the recurrence of widespread electricity blackouts, and this imperils our economy while threatening the viability of small companies.

The energy markets are susceptible to manipulations that price-gouged small businesses, as was clearly evident in the recent scandals of Enron and other corporations. These tactics led to the California energy crisis that resulted in billions of dollars in lost revenue for U.S. small businesses. The energy bill does nothing to strengthen the law to prevent these kinds of widespread market manipulations – leaving small companies unprotected against future corporate misconduct and fraud.

One-third to one-half of all energy is wasted through inefficiency. This is especially true for many small businesses, including restaurants, groceries, convenience stores, laundries, bakeries, and manufacturers. It is apparent that the federal government must increase funding for research and development of new technologies in energy. There is tremendous potential for small firms to lead the nation in reducing energy consumption through the development and use of new energy-efficient technologies. Through energy saving techniques such as solar power and water heaters, small businesses can bank enormous savings every year – and continue to drive the U.S. economy.

The energy bill provides no direct funding to small businesses to implement or install energy-efficient technologies. Yet it contains billions of dollars of direct funding in windfalls and subsides to large energy corporations. For example, H.R. 6 provides $330 million in payments to the oil industry to cover its costs for environmental impact studies of proposed drilling projects. The Energy Policy Act fails to adequately fund energy efficiency research and development (R&D) that would help small businesses utilize new energy saving technologies. Instead it authorizes almost $3 billion for R&D that benefit the large players in the oil and coal industries.

Small businesses are also the primary developers of energy-efficient technology innovations. The most effective way to support the growth of these companies and foster the development of new renewable energy businesses would be to include the Renewable Portfolio Standard in H.R. 6. The Renewable Portfolio Standard would require large utilities to purchase a gradually increasing portion of their electricity from renewable energy sources – substantially expanding this small business dominated market. However, the Renewable Portfolio Standard was stripped from the energy bill during final negotiations.

Small firms also need increased tax incentives to aid them in affording the new energy-efficient technologies. Even when such products exist, small businesses are unable to afford them because the purchasing and installation costs are often prohibitively high. Tax incentives for energy-efficient products and practices are the best way to help small companies conserve energy and keep their costs down. Unfortunately, the Energy Policy Act does not emphasize greater energy efficiency as a high enough priority. In addition, it fails to help small businesses take their energy matters into their own hands by providing tax and other incentives when they use energy-efficient techniques in their day-to-day business operations.

The energy bill suppresses employment growth of small businesses – the primary job creation engine in this country. The bill provides over $17 billion in tax cuts, subsidies, and other windfalls for energy suppliers that are dominated by large corporations. Any new jobs resulting from this bill will likely be offset by job losses or even bankruptcies from companies in other energy industries, many of which are small firms. Subsidizing a few big business entities just distorts the market and hurts small business.

Small businesses tend to have little cash reserves and operate on tight budgets. Since small companies make up a large energy consumer segment in the U.S., they are disproportionately affected by policies that impact efficiency and resource productivity. The recent energy bill costs over $142 billion and will significantly increase the national debt, which is crippling small business growth. The bill also increases costs for small businesses, places them at greater risk to price-gouging and corporate fraud, weakens critical reliability protections, fails to adequately invest in needed energy-efficient technologies, and benefits large corporations at the expense of small companies.

Entrepreneurial Programs

As unemployed Americans encounter a weak labor market and search for ways to earn a living, many will look to starting a small business. During the previous recession, one-quarter of all laid-off managers over the age of 40 started their own companies. These types of entrepreneurs are a critical component of any economic recovery equation.

However, the one obstacle that budding entrepreneurs face is a lack of technical and managerial knowledge. For many years, the federal government has worked in partnership with local and state governments to provide this kind of assistance to would-be small business owners. Entrepreneurial programs play an integral role in equipping businesses with the tools they cannot otherwise obtain through the private marketplace. At a time when the major focus of policy should be on entrepreneurial development, many initiatives to meet the needs of the next generation of small business owners have seen no action.

This administration's fiscal year 2004 budget submission, and the dramatic cuts it made to entrepreneurial programs, gave a clear indication of its weak commitment to developing the next generation of small business owners. Despite the obvious demand for entrepreneurial assistance, the Bush administration has shown a lack of concern and interest in improving and/or expanding such initiatives. These cuts also coincide with the severe downturns in both the manufacturing and technology sectors, as well as the fiscal crisis many states are facing, which has forced them to inevitably curtail spending on local business assistance and economic development programs.

There has also been a clear failure to place priority on legislation that improves existing assistance programs. The clearest example is the fact that the ***Small Business Reauthorization and Manufacturing Revitalization Act of 2003 (H.R. 2802)*** has been pushed aside to make room for other initiatives pushed by this administration. The failure to pass the SBA reauthorization essentially means the programs on which entrepreneurs depend will be underfunded and outdated. One of the primary reasons for updating the programs is to ensure the agency is in step with the changing needs – and changing face – of small business.

If there is any hope for the SBA to meet the demands of small businesses, it is imperative that the reauthorization be passed into law. The bill that was reported out of the House Small Business Committee would make the most significant changes and improvements to the SBA in nearly two decades. While the House Small Business Committee passed H.R. 2802 out of committee unanimously, the Republican leadership and the administration has blocked movement of this bill.

There has also been no push to expand existing initiatives that have been severely underfunded and underutilized. For example, the ***Native American Small Business Development Center Act (H.R. 1166*****)** and the ***Vocational and Technical Entrepreneurship Development Act of 2003 (H.R. 1387*****)** are two bills designed to meet the particular needs of small business groups by expanding on successful programs. These bills would go a long way in providing assistance, but they have stalled despite broad bipartisan support.

During previous economic downturns, small business start-ups and expansions have heralded recovery. The federal government must continue its role of investing dollars in programs that support entrepreneurs. Statistics have shown that many of these programs have produced over $2 in federal revenue for every dollar spent. With the assistance these programs provide, small businesses can produce the economic momentum necessary to create jobs and sustain growth. If entrepreneurial development programs continue to fade – as they have been doing under this administration – many small companies will struggle to get off the ground and, as a result, job losses and erratic economic growth will continue.

Federal Contracting

In 2002, there was an increase of nearly 7% in the government's buying to a new record high of $235 billion, but opportunities for small businesses, especially those owned by women and minorities, have not kept pace. For the third year in a row, the federal government failed to achieve its statutory small business goals, costing our nation's small companies nearly $14 billion in lost contracting opportunities.

The inability of the U.S. government to achieve its goals is just one part of a much larger problem for small companies. Another is the actual number of contracting opportunities, which has declined sharply in recent years. In fact, from fiscal year 1991 to fiscal year 2000, the number of new prime contracts awarded to small companies decreased by 56%. The primary reason for this drop, as acknowledged by the Office of Management and Budget (OMB), is contract bundling – the practice of agencies combining small contracts into mega-contracts that are simply too large for small business participation.

In an attempt to address the declining number of contracts available to small companies, the president placed opening up the federal marketplace on his 2002 small business agenda. The president later released a plan to combat contract bundling, and final regulations implementing this plan were released in October 2003.

Yet rather than accomplishing the president's intended purpose of breaking up big contracts for increased participation by small companies, the regulations will have the opposite effect. They actually lessen small business protections on federal contracts worth less than $5 million. While increasing oversight of federal contracting in general, the plan also fails to provide the necessary resources for real enforcement.

Legislation was introduced in the first session of the 108th Congress to address the problems small businesses face in the federal marketplace. For instance, a bill to raise the government-wide small business procurement goal from 23% to 25% ***(H.R. 1216)*** was introduced. Another piece of legislation, the ***Subcontractor Protection Act (H.R. 1217)*** would require agencies to assess penalties if small disadvantaged business goals are not achieved. It also attempts to increase protections to ensure small firms are not easily replaced as subcontractors once a contract is awarded.

The House did pass the ***Federal Prison Industries (FPI) Competition in Contracting Act (H.R. 1829)*** in November, but no further action has been taken. This bill would take steps to release the stronghold that FPI has on federal contracts, resulting in more prime contracting opportunities for small businesses.

In addition to these bills, the Committee on Small Business moved a legislative initiative that overhauls the SBA's procurement programs, and makes substantive changes designed to help small businesses win their fair share of federal contracts. ***The Small Business Reauthorization and Manufacturing Revitalization Act of 2003 (H.R. 2802)*** would dramatically increase the resources that SBA will have to enforce contracting laws, which will assist small firms in accessing the federal marketplace through prime and subcontracting.

H.R. 2802 would also expand the oversight of contracts to be reviewed for potential negative impacts on small businesses. Right now, most mega-contracts are not even evaluated for their harmful effect on small business contractors. H.R. 2802 would ensure that mega-contracts are examined with the goal of increasing small business participation and cost effectiveness in the federal marketplace. And for those small businesses that compete for larger contracts, additional time to team would be provided.

Finally, H.R. 2802 ensures that the Women's Procurement Program, which was passed into law in 2000, is immediately implemented. Despite the fact that women own one-third of businesses and 40% of these businesses sell something the government buys, they have historically been shut out of the federal marketplace. A 5% goal has been in effect since 1994, but the federal government has yet to achieve it. Three years ago the Women's Procurement Program was created to allow small, women-owned firms to compete against one another for federal contracts in industries where they have historically been underrepresented, but the administration has continually stalled its implementation.

In addition, the 108th Congress had an opportunity to ensure that small businesses were made a priority in the first session. An important amendment was introduced during consideration of the most recent $87 billion supplemental appropriations bill for reconstruction efforts in Iraq and Afghanistan. Currently, large corporations are required to develop and implement subcontracting plans for better inclusion of American small businesses, but only if those contracts are performed in the United States. This amendment would have required companies receiving lucrative reconstruction contracts to have subcontracting plans in place that include U.S. small businesses. Unfortunately, during negotiations, this important change was stripped out by the administration, depriving U.S. small businesses of billions of dollars in subcontracting opportunities for the rebuilding of Iraq and Afghanistan.

Small firms depend on their customers for growth – and the federal government can provide a vast marketplace for them. Small businesses can often provide the U.S. government with quality goods and services at competitive prices, yet the flawed procurement system precludes them from fully participating in the federal contracting arena. The first session of the 108th Congress saw no action to improve the access of small companies to the federal marketplace. If this trend is not reversed, not only will small businesses lose, but so will our economy, the federal government, and U.S. taxpayers.

Health Care

The ability of small businesses to offer quality, affordable health insurance to their employees is critical to maintaining a qualified workforce. While large firms generally have the ability to offer retirement and health care benefits due to economies of scale and bargaining power, it is difficult for small firms to offer competitive packages. The difficulty small businesses face in obtaining health insurance is a growing concern for them. In fact, according to the National Federation of Independent Business (NFIB) and other small business groups, the rising cost of health care ranks as the number one issue.

Unfortunately, the health care picture for small businesses is bleak and only worsened in 2003. After two years of double digit premium increases, employers were again hit this year with price spikes that averaged almost 14%. These types of cost hikes are devastating to small companies since employee compensation, including wages and health insurance premiums, make up the bulk of their operating budgets.

These high costs also explain why out of the estimated 43 million uninsured Americans, nearly 60% either work for a small business or have a family member who works for one. Because of these problems, there has been bipartisan support for health care reform to address a crisis that is hitting the small business community especially hard. However, despite this backing for change, there has been little to no action from the Republican-controlled Congress.

Lawmakers have looked at ways to encourage small businesses to provide health insurance to their employees. ***The Small Business Health Insurance Affordability Act of 2003 (H.R. 450)*** has bipartisan support and would provide tax credits for small employers that offer health insurance. To date, there has been no action. Two other pieces of legislation that would have minimal budgetary impact and have garnered bipartisan support are the ***Small Business Health Fairness Act of 2003 (H.R. 660)*** and the ***Self-Employed Health Care Affordability Act of 2003 (H.R. 1873)*** – yet neither has been sent to the president. H.R. 1873 would allow the self-employed to deduct the costs of health care in calculating payroll taxes, something other small businesses can already do. And H.R. 660 provides for the creation of Association Health Plans (AHPs) and has only passed out of House.

Although the president included health care reform as part of his small business agenda over a year and a half ago, the lack of action on this issue suggests it is simply not a priority. Despite strong support from small business groups for these reforms, little has actually been accomplished. Without enactment of legislative solutions, the crisis for small businesses will continue to grow deeper – and more costly.

This lack of legislative movement has created a sense of desperation for small companies and their employees. Employers are faced with the difficult choice of either reducing coverage, passing on the costs directly to employees, or absorbing the costs of the increases themselves. Not only are none of these choices attractive to small businesses, but it also reduces their competitiveness, making it more difficult for them to invest money to grow and expand. It is clear that if no action is taken in the 108th Congress, the number of uninsured and underinsured in the U.S. is only going to rise.

Pensions

An important employee benefit for small businesses that too often goes unnoticed by policymakers, but is rarely forgotten by small firms and their employees is retirement plan coverage. The ability of small companies to offer pensions is an important tool in recruiting and maintaining a stable employee base. Retirement coverage is a way entrepreneurs can reduce turnover, which is critical to establishing any successful business venture.

Unfortunately, due mainly to neglect, current pension provisions have been structured in a way that prevents small businesses from offering the same variety of retirement coverage options provided by large corporations. Since small firms have few options, the large majority of them fail to offer any type of retirement plan at all. This has resulted in a growing gap in pension coverage between large and small businesses. According to the Congressional Research Service (CRS) in 2002 only 27% of workers at firms with fewer than 25 employees participated in an employer-sponsored retirement plan, compared to 66.6% of workers at firms with more than 100 employees. One of the primary reasons small employers are unable to offer retirement coverage is the one-size-fits-all approach of these plans, which fail to account for the needs of businesses with 50 or fewer employees. While large companies can absorb the costs associated with setting up these plans, small businesses simply do not have the time or the resources.

There are solutions that would encourage small employers to offer retirement coverage and entice workers to participate. ***The Pension Preservation and Savings Expansion Act (H.R. 1776)***, otherwise known as Portman-Cardin, would provide a broad array of changes to pension plan coverage, making a difference for small employers.

An important aspect of Portman-Cardin is how it would help simplify the rules related to an employer setting up a plan. It accounts for the needs of small businesses that have limited resources to set up retirement plans, but want to offer their employees comprehensive coverage. Although Portman-Cardin offers small firms a real solution, this bipartisan legislation did not reach the House floor for a vote in the first session of the 108th Congress.

Improving the quality of benefits available to small companies must be a primary concern for policymakers, especially because it is these firms that are responsible for employing over half of our nation's workforce. Yet due to legislative inaction, the current inequities remain in place and roadblocks persist that allow corporate America to take advantage of pension plans while small businesses are left behind. Options for retirement coverage that carry substantially lower benefits than those of their corporate counterparts has created a significant problem for small companies and their employees. Unless action is taken and pension reform occurs, the difference between the retirement options for employees of small companies compared to those of large corporations will grow even more stark, creating continued turnover and lack of stability among the small business sector.

Regulations

Regulatory obligations place a tremendous burden on this nation's small businesses. They are unfairly penalized by onerous regulations while large businesses are able to minimize cost by utilizing economies of scale. In an October 2001 report, SBA estimated that large firms (over 500 employees) spend $4,463 per employee to comply with federal regulatory and paperwork requirements, while small businesses (with fewer than 20 employees) pay $6,975 per employee. The regulatory situation is another instance in which small firms are at a considerable disadvantage when compared to large companies.

Regulatory compliance and paperwork issues are not new problems for small business. Over 20 years ago, Congress passed both the Paperwork Reduction Act (PRA) and the Regulatory Flexibility Act (RFA) with the goal of minimizing the cost and time that small businesses spend on complying with federal rules and regulations. More recently in 1995, Congress passed the Small Business Regulatory Enforcement Fairness Act (SBREFA) to offer further assistance to small business. In 2002, the Republican leadership allowed the Paperwork Reduction Act, which places specific limits on the amount of paperwork federal agencies can require from small businesses, to lapse. Since the PRA lapsed, no effort was made by the leadership to reauthorize this existing small business protection.

SBREFA has been effective in holding some agencies accountable, but unfortunately, it is limited in scope. For example, the agency that burdens small businesses the most – the IRS – is not subject to SBREFA. Incorporating the IRS under SBREFA would do more to ease the regulatory burden on small companies than any other single change to the regulatory process. Still nothing has been done in the last year to curb this agency from continuing to unnecessarily overwhelm small businesses as they attempt to maintain federal compliance.

Currently, legislation exists that would ease the regulatory burden on small enterprise in America. Unfortunately, the Republican leadership continues to overlook these proposals. Two pieces of bipartisan legislation, the ***Small Business Paperwork Amnesty Act (H.R. 1867)*** and the ***Paperwork and Regulatory Improvements Act of 2003 (H.R. 2432)*** would provide relief to small businesses by ensuring federal agencies make reasonable demands relating to paperwork and federal regulatory compliance.
Even President Bush has recognized the regulatory problem, making it a prominent piece of his administration's small business agenda. Despite promises to make significant changes to the regulatory process, another year has passed and the problems have only worsened. In fact, under the Bush administration, the regulatory burden on small businesses has reached an all-time high.

Instead of providing additional protections for small businesses, the first session of the 108th Congress witnessed the continuing trend of ignoring the need for small business regulatory relief. This inaction has led to a widening gap in compliance costs between large and small companies. This growing burden on small firms shifts their focus from serving customers and expanding their businesses to filling out forms. The resources and financial drain of federal regulations on small businesses today has certainly affected their overall level of profitability.

Taxes

Properly structured small business tax relief can promote investment and create incentives for companies to take a risk so they can grow. Given the fragile state of the economy, targeted tax relief provides the necessary cash infusion to businesses that are struggling to meet their payrolls and purchase necessary equipment. Tax incentives give small businesses the impetus to hire new employees or expand their facilities.

There was much hope this year that small businesses would get the boost they needed when President Bush announced plans for a third tax cut in just three years. But in the end, the ***2003 Jobs and Growth Tax Act of 2003 (H.R. 2)*** left small businesses behind in favor of tax breaks for large corporations. For the third year in a row, Congress passed a major tax cut backed by the administration in which the interests of small businesses were secondary. The reality was that less than 3% of the $350 billion tax package was tax relief targeted to small business.

It was not as if there were few small business targeted tax cut ideas. The 2003 tax package could have included a number of reasonable solutions to meet the needs of small firms – many of which are not new and can be found in numerous bills introduced in the 108th Congress. These include: ***Tip Tax Fairness Act (H.R. 2034), to amend the IRS code for meal and entertainment deductions (H.R. 2094), Individual and Small Business Tax Simplification Act of 2003 (H.R. 22), Small Business Expensing Permanency Act of 2003(H.R. 2638) and Alternative Minimum Tax Repeal Act of 2003 (H.R. 43)***, and all contained small business provisions.

One of the primary priorities for small businesses over the last three years found in H.R. 2638 – permanent and increased equipment expensing – was also pushed aside. The ability to have permanent expensing relief would mean that small firms could implement a business plan with certainty and buy the type of equipment such a change encourages. However, despite repeated promises by this administration, the demand for permanent small business tax relief went unheeded and will sunset under the 2003 tax package legislation.

Another issue for small businesses that is looming and went unsolved this year is the Alternative Minimum Tax (AMT) problem. The AMT was originally designed to prevent wealthy Americans from avoiding taxes, but because it has not kept pace with inflation, it will now affect millions of middle-income small business owners in the coming years. The administration's latest tax package only provided minimal AMT relief for small businesses in 2003 and 2004. After 2004, there is no AMT relief, and any gains from other tax cuts in the bill will be offset by the increasing impact of the AMT.

The Bush administration and House leadership also failed to move forward anything that would effectively allow small businesses to estate plan. The 2001 tax cut used gimmicks, rather than sound policy, to eliminate the estate tax and, as a result, it expires one year and then is back the next. While there has been broad bipartisan support for a solution that would exempt small businesses from the estate tax, the inability to get any such initiatives signed into law has put family-owned businesses at risk.

There was hope that some of these solutions that were not passed in the 2003 jobs and growth package could be included in the FSC-ETI bill that Republicans promised to pass by the end of the first session. Currently, the FSC-ETI regime provides tax benefits to U.S. exporters to help them effectively compete in the international economy.

Unfortunately, the European Union (EU) lodged a complaint against these provisions through the World Trade Organization (WTO), which determined that the regime violated the WTO trade agreement. Efforts to pass a tax bill to repeal FSC-ETI and offset the negative effects have stalled because the Republican leadership has attempted to provide more corporate tax breaks rather than those that will be the hardest hit – small and mid-sized firms. The proposed $120 billion solution left no room for assistance to this nation's struggling small business sector.

Not only did these reasonable solutions to help small companies fail to pass, but tax cuts were enacted for large corporations instead that will ultimately harm entrepreneurs. The dividend tax cut – the cornerstone of this year's tax legislation – will shift investment away from small businesses towards large corporations that can pay these dividends. In addition, because of the high costs associated with the dividend tax cut, the budget deficit effects could drive up long-term interest rates, making capital more expensive for small businesses.

Targeted tax cuts for small businesses can accomplish two goals – they provide incentives and cash for these ventures to grow, and keep the federal budget in check. Broad tax breaks, such as the enacted cut in the top marginal rate, which affects just 1% of small businesses, does little to provide entrepreneurs with the incentive they need to invest and expand. Such failures will only stifle innovation and could mean more job losses for our nation in the future.

Technology

Technology plays an integral role in helping businesses - including small firms - maintain a competitive edge in the 21st century. Increasingly, small businesses are leaders in the high-tech world and are responsible, in large part, for new innovations. In addition to being producers, small firms are also technology consumers. But both accessing and developing technology still remains challenging for small enterprise in America, especially in comparison to large businesses.

Access to technology, including a Web site and interactive e-commerce, is key to small business growth in this country. These tools give entrepreneurs a way to enhance their products and services, access new markets at a low cost, and compete with larger operations. Estimates of Internet sales show they will account for 8% of total retail sales by 2007, representing nearly $200 billion. A basement start-up like Amazon.com was able to grab a large share of the on-line book business, leaving corporate giants like Barnes and Noble behind.

In 2002, even though approximately 60% of small firms had a Web site and were using the Internet, only 35% of businesses actually were selling on-line. One reason for this is the availability and costs associated with broadband, or high-speed Internet access, which is a critical component of e-commerce. Small firms will not be able to fully participate in the expanding virtual marketplace unless they are able to do so quickly and inexpensively.

Unfortunately, Congress has not addressed this pressing need of small businesses, by failing to move any legislation that would increase access to - and affordability of - broadband for them. A slew of bills have been introduced in Congress to this end, including two which amend the tax code to provide a broadband Internet tax credit ***(H.R. 768)*** and allow the expensing of broadband Internet access expenditures ***(H.R. 769)***. And the ***Rural America Digital Accessibility Act (H.R. 138)*** was introduced in an attempt to bridge the digital divide in rural America.

Furthermore, access to the Internet will cost more for small firms since Congress did not pass the ***Internet Tax Nondiscrimination Act (H.R. 49)***. This bill would make the moratorium against taxation on Internet access permanent, blocking states from levying taxes on small companies for Internet access and electronic commerce.

Legislation that would help small high-tech companies – the leaders of innovation – is also stalled in Congress. According to the SBA's Office of Advocacy, small tech companies are the technology trailblazers, producing 13 to 14 times more patents per employee than large patenting firms. These patents are twice as likely as large firm patents to be among the 1% most cited. Small companies are also the employers of almost 40% of high-tech workers, such as scientists, computer workers and engineers.

One of the most important initiatives to support R&D – the lifeline of technology firms – is making the R&D tax credit, the ***Invest in America Act of 2003 (H.R. 463)*** permanent, which Congress failed to do once again in 2003. For many small tech firms that have little liquidity, the R&D tax credit would provide them with the necessary funds to continue operating while committing resources for the company's future. The credit affords them the ability to follow-through on ideas and concepts that can lead to breakthroughs and expansion. Without passage of a permanent R&D tax credit, the U.S. could lose its status as a leader in innovation.

Small R&D companies also need access to venture capital, which they often find difficult to obtain, especially for federal projects. These firms, including small bio-tech companies, often rely on federal assistance to take their products from the lab to the marketplace. ***The Small Business Reauthorization and Manufacturing Revitalization Act of 2003 (H.R. 2802)*** would have removed the barriers many small R&D companies face in securing venture capital, but the bill will not see any action until sometime in 2004.

Technology is an important ingredient of small business success, and the ability of entrepreneurs to access technology – and create new technologies – must be a priority for policymakers. It is critical that Congress understand the increasingly important role small business plays both as technology consumers and producers. If the technology issues for small companies are left unaddressed, their growth and inherent innovativeness will certainly be hindered.

Transportation/Infrastructure

Congestion not only imposes a personal cost on highway users in terms of delays and its impact on the quality of life, but it also levies a serious cost to our nation's small businesses and the productivity of the U.S. economy. An outdated and inefficient transportation system slows the wheels of our nation's commerce. With each passing day these delays translate into additional costs to the industries that are transportation dependent. For small firms struggling to maintain the bottom line, increased fuel costs, lost time and squandered economic opportunities can be catastrophic. To minimize costs and effectively compete with large companies, small businesses need a seamless and reliable intermodal transportation system.

A strong infrastructure has an economic ripple effect that impacts numerous domestic industries. For example, travel agencies depend on an efficient transportation system. When these companies are successful they provide an infusion of business for hotels, restaurants, gifts shops, and other tourism-related enterprises.

Our nation's transportation infrastructure generates over $200 billion in economic activity in the U.S. each year and sustains over 2 million jobs for American workers. Small businesses are a major component of the transportation industry, with contractors, engineers, consultants, mechanics and other small firms working to plan, construct, and maintain our roads, transit and rail system, ports, and waterways. These small companies provide jobs, contribute to local economic development, and help drive our economy. ***The Transportation Equity Act for the 21st Century (TEA-21)*** – the major six year funding authorization bill for federal highway, highway safety, transit and other surface transportation programs – provides critical funding for major local transportation projects in communities across the country. These projects create opportunities for small business growth in construction, travel and tourism, and other industries which, in turn, creates much-needed jobs for America's workforce and stimulates the economy.

TEA-21 was scheduled to expire on September 30, 2003. However, instead of working through stalled Committee negotiations to reauthorize TEA-21, the Republican leadership disregarded the consequences and simply continued the current funding levels for existing transportation programs for 5 months. Accordingly, no new transportation projects will be initiated under this measure. Without a full six year reauthorization to comprehensively address our current transportation and infrastructure demands, small firms that build, maintain, travel and depend on our highways, bridges, waterways and transit systems will continue to struggle. It is disheartening that Congress has chosen to push aside the TEA-21 reauthorization until next year when investing in our nation's infrastructure and transportation system is crucial to our economic vitality. Many transportation centered small businesses will not survive this void of economic opportunity.

Workforce Development/Training

Small businesses serve as the first source of employment for the majority of Americans. Workforce development and training programs are essential for small companies to attract and retain qualified employees. Entrepreneurs need these programs to effectively recruit a skilled work force for start-up and growth.

Unlike corporate America, small businesses face formidable financial barriers to providing employee training, which can cost from $250 an hour to a staggering $10,000 a day. Small businesses do not have the time or resources to conduct extensive personnel searches or recruit skilled workers. Without a strong workforce development and training program system, small firms will not have the resources they need to expand their operations, compete with large corporations, and contribute to our struggling economy.

The federal government primarily supports workforce development and training programs through the Workforce Investment Act (WIA). WIA includes programs on job training, adult education and literacy, vocational education and rehabilitation, and employment services. However, under current law, small businesses are not given ample opportunity to help shape WIA programs and spending, nor can they sufficiently provide input into the types of employees they are seeking.

As a result, most entrepreneurs are unaware of WIA programs, despite the value these services could provide small businesses. The SBA Office of Advocacy recently confirmed the number of small businesses that are aware of the WIA services available to them is very low and has dropped sharply over time. SBA officials reported a significant lack of outreach to small businesses regarding these government training programs, and also documented that workforce development program administrators are aware of this shortfall, but seem indifferent to its impact on small companies.

Congress was presented with the perfect opportunity to address these insufficiencies, and ensure that small companies are able to reap the benefit of WIA programs. WIA was set to expire earlier this year, and legislation was introduced to reauthorize and modernize the program. However, this opportunity was squandered as the bill entitled the ***Workforce Reinvestment and Adult Education Act of 2003 (H.R. 1261)*** does not address small business concerns regarding the overall program, lacks effective outreach provisions, and fails to strengthen the role of small business owners in local WIA boards. As a result this bill limits the ability of small companies to compete in the job market, recruit and retain employees, grow their business operations and ultimately stimulate economic growth.

The welfare-to-work system is another valuable, yet underutilized, resource for small business owners. Small firms are the major employer in this nation, and many people transitioning from welfare-to-work are employed by small businesses. Furthermore, opportunities for welfare recipients to become entrepreneurs are often overlooked. Small business owners can serve as a real resource in efforts to move welfare recipients from dependency to economic self-sufficiency, and can benefit from having a new pool of potential employees. Unfortunately, the Republican leadership has left small business owners out of the equation in the ***Welfare Reform bill (H.R. 4)*** and, in doing so, have lost an opportunity to turn the cycle of poverty in low-income communities into an economic engine fueled by former welfare recipients.

Small businesses drive our economy, but they need a qualified workforce to truly have an impact. Without comprehensive workforce development programs to rely on, small business owners will be forced to invest capital that is critical to their success on expensive training services. Worse yet, they may have to forego hiring new employees and make ends meet with fewer, less skilled staff. The lack of qualified employees may also discourage new entrepreneurs from starting businesses that may otherwise contribute to our struggling economy. Including small firms in the administration of workforce development services is essential to creating a system of low unemployment, high wages and job retention, and opportunities for economic self-sufficiency and success.

Conclusion

The lack of progress in advancing solutions to those challenges facing small businesses in the U.S. during the first session of the 108th Congress is especially striking. Given the fact that the needs of small businesses were prominently incorporated into the agendas put forth by both the Bush administration and the Republican leadership, it seemed inconceivable to project that 2003 would end with so little assistance provided to this nation's entrepreneurs.

Interestingly enough, these failures expand across the entire spectrum of small business issues and ranged from more high profile needs as tax and regulatory relief to lesser items like the expansion of federal entrepreneurial programs. This lack of progress is also perplexing given the fact that all of these issues have bipartisan solutions that bridge both party and ideological lines. Such broad support would seem to clear the way for passage of at least some of the proposals, but to date, none have moved from Congress to the president's desk.

An analysis of the reasons these initiatives were stalled shows that many of the proposals had little or no policy objections. The Bush administration and congressional leaders touted these as economic solutions, but when it came down to negotiating legislative packages, they were not willing to make these items a priority. The small business proposals brought to the table were quickly discarded in favor of other priorities that focused on less productive portions of the economy.

The failure to move these important small business proposals forward comes at a critical juncture in this nation's economic cycle. While the economy has shown some signs of recovery, with a recent surge in GDP and jumps in consumer spending, there are still negative factors, including a ballooning trade deficit, the widest budget deficit ever in our history, and massive job losses, which create a muddled economic picture. A review of the economy appears that it is currently running on a mix of strengthening consumer confidence, a robust housing market as well as riding the short-term wave of a fiscal stimulus package.

Yet these factors alone are unlikely to produce sustained economic growth or spur consistent job creation. In fact, much of the job losses experienced over the recent three years are atypical, marking a new pattern unlike any other found in past U.S. economic downturns. Normally such downturns witness the movement of dislocated workers within industries, but this period has seen longer lulls in unemployment and jobs that are gone from the economy for good.

Currently, the challenge is whether our nation will be able to generate new industries and jobs that will lead to the next economic resurgence, which has historically been led by small businesses. Through the small business sector's power to spark innovation and jobs, it has pulled the nation out of previous downturns and recessions. As noted in the report, during the recession of the 1990s, one quarter of all laid-off managers over the age of 40 started their own businesses. Some of this nation's most established companies – from Disney and Hewlett Packard to Microsoft – trace their roots to recessions.

This small business dynamic is even more critical for the current economic situation since not only will jobs need to be created, but also entire industries must be replaced. The ability for this trend to develop in the current economic environment is highly unlikely given that so many of the issues facing this nation's small businesses have been left unaddressed by policymakers. If significant action is not made on these fronts, the single most important factor in economic recovery – small businesses – will be hampered, unable to provide the sustained economic expansion and the continuous addition of jobs this nation needs for long-term prosperity.

The Unfinished Small Business Agenda for the 108th

Access to Capital

H.R. 739 - Small Business Investment Company Capital Act of 2003

H.R. 923 - Premier Certified Lenders Program Improvement Act of 2002

H.R. 758 - Business Checking Freedom Act of 2003

Energy

H.R. 6 - Energy Policy Act of 2003

Entrepreneurial Programs

H.R. 1387 - Vocational and Technical Entrepreneurship Development Act of 2003

Federal Contracting

H.R. 1216 - Increase the Government-wide Small Business Procurement Goal

H.R. 1217 - Subcontractor Protection Act

H.R. 1829 - Federal Prison Industries (FPI) Competition in Contracting Act

Health Care

H.R. 1873 - The Self-Employed Health Care Affordability Act of 2003

H.R. 450 - Small Business Health Insurance Affordability Act of 2003

H.R. 660 - Small Business Health Fairness Act of 2003

Pensions

H.R. 1776 - Pension Preservation and Savings Expansion Act

Regulations

H.R. 1867 - Small Business Paperwork Amnesty Act

H.R. 2432 - Paperwork and Regulatory Improvements Act of 2003

Small Business Assistance

H.R. 2802 – SBA Reauthorization

Taxes

H.R. 2 - Jobs and Growth Tax Act of 2003

H.R. 2034 - Tip Tax Fairness Act

H.R. 2094 - Business Meal Deductions

H.R. 22 - Individual and Small Business Tax Simplification Act of 2003

H.R. 2638 - Small Business Expensing Permanency Act of 2003

H.R. 43 - Alternative Minimum Tax Repeal Act of 2003

Technology

H.R. 49 - Internet Tax Nondiscrimination Act

H.R. 768 - Broadband Internet Tax Credit

H.R. 7695 - Broadband Internet Access Expensing

H.R. 138 - Rural America Digital Act

H.R. 463 - Invest in America Act of 2003

Transportation/Infrastructure

H.R. 2088 - The Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2003 (TEA-21)

H.R. 571 - Accelerated Building Depreciation

Workforce Development/Training

H.R. 2047 - Welfare-to-Work Tax Credit (WOTC)

H.R. 1261 - Workforce Reinvestment and Adult Education

H.R. 4 - Welfare Reform Bill